



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
1100 Commerce Street, MC 4920DAL
Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Release Number: **202004014**
Release Date: 1/24/2020
UIL CODE: 501.03-00
Date: 10/09/2019

EIN:
Person to Contact:

Identification Number:

Telephone Number:

Fax:

CERTIFIED MAIL - Return Receipt Requested
LAST DAY FOR FILING A PETITION WITH THE TAX COURT: JAN 07 2020

Dear :

This is a final determination that you do not qualify for exemption from federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(3), effective July 1, 20XX. Your determination letter dated November 19, 19XX is revoked.

Our adverse determination as to your exempt status was made for the following reasons:

Organizations described in I.R.C. § 501(c)(3) and exempt under section 501(a) must be both organized and operated exclusively for exempt purposes. You have not demonstrated that you are organized and operated exclusively for charitable, educational, or other exempt purposes within the meaning of I.R.C. section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. You have not established that you have operated exclusively for an exempt purpose.

As such, you failed to meet the requirements of I.R.C. § 501(c)(3) and Treasury Regulation §1.501(c)(3)-1(a), in that you have not established that you were organized and operated exclusively for exempt purposes and that no part of your earnings inured to the benefit of private shareholders or individuals.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code.

Organizations that are not exempt under section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms, and information please visit www.irs.gov.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment. Please refer to the enclosed Publication 892 for additional information. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

U.S. Court of Federal Claims
717 Madison Place, NW
Washington, DC 20005

U. S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, DC 20001

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under section 7428 of the Internal Revenue Code.

You may be eligible for help from the Taxpayer Advocate Service (TAS). TAS is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 1-877-777-4778.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Maria Hooke

Enclosures:
Publication 892

Maria Hooke
Director, EO Examinations



**Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
Exempt Organizations Examinations**

Date:
April 3, 2019
Taxpayer Identification Number:

Form:
990 Return
Tax Year(s) Ended:
June 30, 20XX
June 30, 20XX
June 30, 20XX
Person to Contact:

Employee ID:
Telephone:
Fax:
Manager's Contact Information:

Employee ID:
Telephone:
Response Due Date:
May 3, 2019

CERTIFIED MAIL – Return Receipt Requested

Dear _____ :

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(3).

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(3) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

For additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Maria Hooke^{BO}

Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended June 30, 20XX June 30, 20XX June 30, 20XX

ISSUE:

Whether _____ tax-exempt status should be revoked because it does not meet the requirements for exemption under section 501(c)(3) of the Internal Revenue Code.

FACTS:

Background

The Administrative file in the possession of the Internal Revenue Service for _____ (" ") was reviewed and it contained the following background information.

Form 1023 Application

_____ submitted a Form 1023- Application for Exemption, to the Internal Revenue Service on April 4, 19XX. The Form 1023 was signed by _____, the _____ organization Executive Director.

The organization provided a narrative description of its activities which stated that was currently in the organizational stage, but the planned activities were:

- "The Center intends to diagnose the level of developmental disorders (mental retardation, cerebral palsy, epilepsy...) in individuals referred to the Center from schools and social agencies. After initial diagnosis and counseling with the individual and his family, the individual is referred to the proper receiving unit, i.e. hospital, mental health center, etc., for in-depth diagnosis and treatment.
- The functions to be performed by the Center are unique within the specific geographical area served by the Center; the _____ of _____. This area was previously served by a diagnostic Center located at _____. However, _____ was closed in November of 19XX. The complete staff of the unit formerly located at _____, including psychiatrist, _____ medical doctor and _____ social workers, is not associated with _____ and will perform the same diagnostic that were formerly performed at _____.

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- No medical treatment will be given at the Center; our services being completely of a diagnostic nature.
- In addition, Parent training will be offered to assist Parents of the disabled in providing maximum opportunities to their children. A variety of homebound components will be offered. Besides counseling, offers homemaker services”.

The application stated that these activities were to be funded through Federal and State funds; contractual fees from clients and public contributions.

Organizing Document

The Articles of Incorporation were included with the Form 1023 application, but showed no evidence that they were filed with the State of , The Articles included the following purpose:

“This corporation is formed for charitable and benevolent purposes and especially:

- (1) To establish, own, operate, control, conduct and maintain, not for pecuniary profit, a facility for the diagnosis, treatment and referral of developmentally disabled persons; however, no medical treatment shall be rendered at any time except by properly qualified and licensed physicians.
- (2) To work in conjunction with other social agencies in the diagnosis and treatment of developmentally disabled persons.
- (3) The corporation is not organized for profit and no part of its net income shall inure to the benefit of any member, trustee, or other individual.
- (4) For the purposes above specified, to receive donations, to receive, manage, take and hold real estate and personal property, by gift, grant devise or bequest.
- (5) The Corporation will not engage in the practice of medicine, nor perform any of the services of a licensed physician.”

There were no bylaws.

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Correspondence

The Internal Revenue Service issued Letter 998 on August 23, 19XX that requested the organization amend its Articles of Incorporation to include an Operational limitations clause and a Dissolution clause. The response due date was September 7, 19XX.

A letter was received from _____, that thanked the Internal Revenue Service for our letter of September 11, 19XX issuing a conditional exempt status until receipt of the Amended Articles of Incorporation. It stated that the Amended Articles of Incorporation were enclosed. No letter from the Internal Revenue Services dated September 11, 19XX was in the administrative file. No amended Articles of Amendment were in the administrative file.

Exemption Letter

_____ was recognized as exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code and issued advance ruling letter 1045 on April 12, 19XX. There was a note at the end of the letter that stated, "This rescinds our conditional exemption letter dated September 11, 19XX." On November 19, 19XX, the Internal Revenue Service made a final ruling on the organization's foundation classification and issued Letter 1050 which stated _____ foundation classification was under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

Filed Forms 990

_____ filed Forms 990 for the fiscal years ended June 30, 20XX; June 30, 20XX and June 30, 20XX.

Part III Statement of Program Service Accomplishments for all _____ years included the following statement:

"The organization did not provide any services for this fiscal year due to lack of funding."

_____ reported the following income on their Forms 990.

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Income	20XX	20XX	20XX
Contributions			0.00
Gross Rents	0.00	0.00	
TOTAL	0.00	0.00	0.00

reported the following expenses on their Forms 990.

Expenses	20XX	20XX	20XX
Compensation of Officers	-	-	0.00
Other salaries and wages	-	-	0.00
Payroll taxes	-	-	0.00
Legal	0.00	0.00	-
Accounting	-	0.00	0.00
Office expenses	0.00	0.00	0.00
Interest	0.00	0.00	-
Depreciation	0.00	0.00	-
Insurance	0.00	0.00	-
All other expenses	0.00	0.00	-
Rental of Equipment	-	-	0.00
Data Processing	-	-	0.00
Misc Expenses	-	-	0.00
TOTAL	0.00	0.00	0.00

reported the following assets and liabilities on their Forms 990.

Assets	20XX	20XX	20XX
Cash	0.00	0.00	0.00
Land	0.00	0.00	-
Buildings	0.00	0.00	-
Other	-	-	0.00
TOTAL	0.00	0.00	0.00

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
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Liabilities	20XX	20XX	20XX
Accounts payable/Accrued expenses	0.00	0.00	0.00
Secured Mortgages and notes payable to unrelated third parties	0.00	0.00	0.00
Mortgage payable	0.00	0.00	-
Line of Credit	0.00	0.00	-
Accrued salaries	0.00	0.00	-
Dept. of Human services	0.00	0.00	-
Taxes Payable	0.00	0.00	(0.00)
Tenant Security Deposit	-	0.00	-
Federal Income tax	-	-	0.00
Accounts Payable	-	-	0.00
	-	-	0.00
Due to Employees	-	-	0.00
TOTAL	0.00	0.00	0.00

Examination

An examination of the Form 990 for the fiscal year ended June 30, 20XX was initiated by Revenue Agent with the mailing out of Appointment Letter 3611, Information Document Request- 1 and Publication 1 on April 11, 20XX. Information Document Request 1 requested such information as: an interview; organizing documents; tour of facilities; and financial records to document revenue, expenses, assets and liabilities reported on the Form 990 (see Exhibit A).

Agent received a telephone message on May 2, 20XX from which stated he was representing . On May 23, 20XX, Agent spoke to and the examination was scheduled for June 13, 20XX. Later in the day, faxed a Form 2848- Power of Attorney to Agent . Subsequently a corrected Form 2848 was submitted to Agent on May 24, 20XX. The box for copies of notices and communications to be sent to the representatives was not checked.

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Agent conducted an examination at the offices of on June 13, 20XX. provided some financial records; bank statements, four pages of the settlement statement for the sale of property; and records relating to the bankruptcy for review. A telephone interview was conducted with , Executive Director/Founder. Agent paraphrased the following statements from the conversation with :

- Organization was formed to provide professional assistance in locating and securing needed services and benefits for individuals who are subjected and diagnosed with developmental disabilities.
- The Department of Human Services discontinued funding of the organization as of June 20XX. The Department of Human Services performed their own audit on the organization. Based on DHS findings, DHS determined that the organization was not meeting the requirements for the amount of money that was being provided to the organization. The end result was that DHS had recouped a portion of the amount received by the organization and the organization funding was discontinued.

On June 27, 20XX Agent faxed Information Document Request 2 to . The response due date was July 12, 20XX. Information Document Request 2 requested such information as: substantiation of income and expenses from rental income; receipts, cancelled checks and minutes associated with loans made by the executive director; bankruptcy documentation; documentation of the sale of the building and the use of the proceeds; and Forms 1099-MISC for legal fees (see Exhibit B). No response was received. Agent typed the interview and faxed to on July 7, 20XX and requested a signature to confirm the information was accurate. The interview notes were not sent back and there was no comment (see Exhibit C).

The examination was transferred to Revenue Agent on September 19, 20XX, and subsequently expanded to fiscal years June 30, 20XX ad June 30, 20XX. The following actions were taken by Agent to request documentation for the audit:

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Date	Correspondence	Mailed to:	Due date	Certified Receipt received	Response	Exhibit
11/2/20XX	Cover Letter with copies of Letter 3611, IDR-1 and IDR-2 sent by Agent -- Certified Mail		11/30/20XX	11/13/20XX	No response	D
1/11/20XX	Letter 3611, IDR-3 and Publication 1- Certified Mail. Audit letter for June 30, 20XX and expanded to years June 30, 20XX and June 30, 20XX		2/12/20XX	1/23/20XX	No response	E
3/26/20XX	Letter 5077-B and IDR-03 for items that cannot be summonsed. Letter 5077-D and IDR-03 for items that can be summonsed- Certified Mail		4/5/20XX	4/3/20XX	No response	F
4/19/20XX	Letter 5077-A Pre-Summons Notice and IDR-03 for items that can be summonsed- Certified Mail.		5/3/20XX	Mailed returned to sender received 05-17-20XX		G

On May 15, 20XX, updated Forms 2848- Power of Attorney for representatives , Enrolled Agent and , CPA was faxed to the Internal Revenue Service. The box for copies of notices and communications to be sent to the representatives was checked.

On June 6, 20XX, the following documents were received from representative :

- A cover letter by
- A letter with a list of enclosed items
- Form 990 for the fiscal year ended June 30, 20XX (unsigned)
- Last Certified Audit for fiscal year ended June 30, 20XX
- Interview Questions by Revenue Agent
- Board minutes for May 9, 20XX and June 9, 20XX
- Executive Director's report for May 15, 20XX; August 14, 20XX; September 4, 20XX; and a report with no date
- Board resolution signed April 16, 20XX

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- HUD Statement for sale of property
- Court filing and settlement of suit by vs.
- Payroll recap; Form 941 for 12/31/20XX; Forms W-2 for 20XX and 20XX
- Working trial balance for fiscal year ended June 30, 20XX
- Spreadsheet of Due to
- checking account statements and cancelled checks for April 20XX and June 20XX
- Working trial balance for fiscal year ended June 30, 20XX
- Spreadsheet of Due to
- checking account statements and cancelled checks for July 20XX, August 20XX, September 20XX, October 20XX, November 20XX, December 20XX, February 20XX, March 20XX, April 20XX, and June 20XX
- Chart of accounts for fiscal year ended June 30, 20XX
- Financial statement for fiscal year ended June 30, 20XX
- General ledger for fiscal year ended June 30, 20XX
- checking account statements and cancelled checks for August 20XX, September 20XX, November 20XX, December 20XX (no checks), January 20XX, February 20XX, March 20XX, April 20XX, May 20XX, and June 20XX.

The information was incomplete and a cover letter with Information Document Requests 3 through 8 were sent to the organization and to both representatives on August 9, 20XX (see Exhibit H). The response due date was September 10, 20XX. The cover letter informed the organization that the previous correspondence was incomplete and that they were required to make records available to substantiate their exempt status. Attached to the cover letter was the following:

- Information Document Request 3- Records for audit. Notations were made identifying each area where information was not provided or deemed to be missing.
- Information Document Request- 4 Income sources. Requested documentation of bank deposits to determine the type and source of income.
- Information Document Request- 5 Debit from Bank Account. Requested contracts, invoices, bills and receipts to determine the purpose of the expenses.

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- Information Document Request- 6 Vendor Review. Provided a list of vendors and payments. Requested contracts, invoices, and receipts to determine the purpose of the expenses.
- Information Document Request- 7 Accrued Payroll. Requested documentation of the accrued payroll reported on the balance sheet.
- Information Document Request- 8 Loan from Officer. Requested cancelled checks, credit card receipts, credit card statements, receipts, invoices, paid bills, and other documentation to document loans from the Executive Director/Founder.

There was no response by the due date of September 10, 20XX. Subsequently a meeting was scheduled with _____ at his office on September 18, 20XX to discuss the outstanding document requests.

- Information Document Request- 4 Income sources. No documentation provided. Per _____, since the organization was under receivership they were not collecting the income and had no records.
- Information Document Request- 5 _____ Debit from Bank Account. No documentation provided.
- Information Document Request- 6 Vendor Review. Documentation was provided for only one vendor _____, Attorney. No contracts, invoices, receipts or other documentation was provided for the other vendors on the list. In addition, no documentation was provided of the TIN's for any of the vendors. A list of additional checks for July 20XX for moving/storage compensation was provided.
- Information Document Request- 7 Accrued Payroll. No documentation provided.
- Information Document Request- 8 Loan from Officer. Provided cancelled checks, bank statements and credit card statements from the Executive Director/Founder of payments made on behalf of the organization. Invoices and bills for all the expenditures the officer paid on behalf of the organization were not provided.

LAW:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
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Internal Revenue Code section 501(c)(3) exempts from federal income tax organizations which are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Internal Revenue Code section 6001 provides that every person liable for any tax imposed by the Code, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

Internal Revenue Code section 6033 (a)(1) provides, except as provided in section 6033(a)(3), every organization exempt from taxation under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and such other information for the purpose of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and shall keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treasury Regulations section 1.501(c)(3)- 1(a)(1) provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Treasury Regulations section 1.501(c)(3)- 1(b)(1)(i) Organizational test-- states an organization is organized exclusively for one or more exempt purposes only if its articles of organization (referred to in this section as its articles) as defined in subparagraph (2) of this paragraph:

- (a) Limit the purposes of such organization to one or more exempt purposes; and
- (b) Do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

Treasury Regulations section 1.501(c)(3)-1(b)(1)(iii) states an organization is not organized exclusively for one or more exempt purposes if its articles expressly

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empower it to carry on, otherwise than as an insubstantial part of its activities, activities which are not in furtherance of one or more exempt purposes, even though such organization is, by the terms of such articles, created for a purpose that is no broader than the purposes specified in section 501(c)(3) of the Code. Thus, an organization that is empowered by its articles to engage in a manufacturing business, or to engage in the operation of a social club does not meet the organizational test regardless of the fact that its articles may state that such organization is created for charitable purposes within the meaning of section 501(c)(3) of the Code.

Treasury Regulations section 1.501(c)(3)- 1(b)(4) provides that an organization is not organized exclusively for one or more exempt purposes unless its assets are dedicated to an exempt purpose. An organization's assets will be considered dedicated to an exempt purpose, for example, if, upon dissolution, such assets would, by reason of a provision in the organization's articles or by operation of law, be distributed for one or more exempt purposes, or to the Federal Government, or to a State or local government, for a public purpose, or would be distributed by a court to another organization to be used in such manner as in the judgment of the court will best accomplish the general purposes for which the dissolved organization was organized. However, an organization does not meet the organizational test if its articles or the law of the State in which it was created provide that its assets would, upon dissolution, be distributed to its members or shareholders.

Treasury Regulations section 1.501(c)(3)- 1(c)(1) Operational test-- states that an organization will be regarded as operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treasury Regulations section 1.501(c)(3)- 1(d)(1)(i) states an organization may be exempt as an organization described in section 501(c)(3) of the Code if it is organized and operated exclusively for one or more of the following purposes:

- (a) Religious,
- (b) Charitable,
- (c) Scientific,
- (d) Testing for public safety,
- (e) Literary,
- (f) Educational, or
- (g) Prevention of cruelty to children or animals.

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Treasury Regulations section 1.501(c)(3)- 1(d)(1)(ii) states an organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Treasury Regulations section 1.6001-1(a) In general. Except as provided in paragraph (b) of this section, any person subject to tax under Subtitle A of the Code (including a qualified State individual income tax which is treated pursuant to section 6361(a) as if it were imposed by Chapter 1 of Subtitle A), or any person required to file a return of information with respect to income, shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.

Treasury Regulations section 1.6001-1(c) Exempt organizations. In addition to such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033.

Treasury Regulations section 1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law.

Treasury Regulations section 1.6033-2(i)(2) Every organization which is exempt from tax, whether or not it is required to file an annual information return, shall submit such additional information as may be required by the Internal Revenue Service for the purpose of inquiring into its exempt status and administering the provisions of Subchapter F (section 501 and following), Chapter 1 of Subtitle A of the Code, section 6033, and Chapter 42 of Subtitle D of the Code. See section 6001 and § 1.6001-1 with respect to the authority of the district directors or directors of service centers to require such additional information and with respect to the books of account or records to be kept by such organizations.

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Revenue Ruling 58-617, 1958-2 CB 260, (Jan. 01, 1958) Rulings and determinations letters granting exemption from federal income tax to an organization described in section 501(a) of the Internal Revenue Code of 1954, to which contributions are deductible by donors in computing their taxable income in the manner and to the extent provided by section 170 of the Code, are effective only so long as there are no material changes in the character of the organization, the purposes for which it was organized, or its methods of operation. Failure to comply with this requirement may result in serious consequences to the organization for the reason that the ruling or determination letter holding the organization exempt may be revoked retroactively to the date of the changes affecting its exempt status, depending upon the circumstances involved, and subject to the limitations on retroactivity of revocation found in section 503 of the Code.

In Rev. Rul. 59-95, 1959-1 C.B. 627, an exempt organization was requested to produce a financial statement and statement of its operations for a certain year. However, its records were so incomplete that the organization was unable to furnish such statements. The Service held that the failure or inability to file the required information return or otherwise to comply with the provisions of section 6033 of the Code and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of exempt status.

In Better Bus. Bureau v. United States, 326 U.S. 279 (1945), the United States Supreme Court held that for an organization to qualify for tax exempt status, the organization must be exclusively devoted to an exempt purpose and the presence of a single nonexempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes. The court found that a substantial purpose, if not the primary purpose, of the trade organization's activities was commercial in nature and therefore not entitled to exemption under section 501(c)(3).

In Community Education Foundation v. Commissioner, T.C. Memo. 20XX-223, the Tax Court held that a nonprofit educational corporation's tax-exempt status was properly revoked because it was not operated exclusively for an exempt purpose. The organization was inactive for over seven years; thus, the organization failed to meaningfully organize or allocate resources to any of the activities mentioned in its application for exemption. Therefore, the organization did not engage in any activity that accomplished one or more of the exempt purposes under Code Sec. 501(c)(3).

TAXPAYER'S POSITION

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended June 30, 20XX June 30, 20XX June 30, 20XX

Taxpayer has not provided a written position.

GOVERNMENT'S POSITION

The organization does not qualify for exemption under IRC 501(c)(3) for the following reasons:

1. The organization does not meet the organizational test under IRC 501(c)(3).
2. The organization does not meet the operational test under IRC 501(c)(3).
3. The organization did not provide the documents required.

Organizational test

The Articles of Incorporation from your Form 1023 application was reviewed. To meet the organizational test under IRC 501(c)(3), an organization is not organized exclusively for one or more exempt purposes unless its assets are dedicated to an exempt purpose. An organization's assets will be considered dedicated to an exempt purpose, for example, if, upon dissolution, such assets would, by reason of a provision in the organization's articles or by operation of law, be distributed for one or more exempt purposes, to the Federal Government, or to a State or local government, for a public purpose, or would be distributed by a court to another organization to be used in such manner as in the judgement of the court will best accomplish the general purposes for which the dissolved organization was organized. See Treas. Regs. 1.501(c)(3)-1(b)(4).

Your Articles of Incorporation did not have a dissolution clause. In Information Document Requests 1, and 3 we requested amended organizing documents to determine whether at some time you amended your articles to come into compliance. You did not respond to these requests, so we must base our analysis on the articles we have on file.

Since your articles does not have a dissolution clause, your organization does not meet the organizational test under IRC 501(c)(3).

Operational test

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended June 30, 20XX June 30, 20XX June 30, 20XX

In order to meet the operational test, an organization must show that they engaged primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Internal Revenue Code. See Treasury Regs. 1.501(c)(3)-1(c)(1). You received exemption to provide services for the developmentally disabled. You ceased to conduct this activity in 20XX when you lost your funding from the Department of Human Services. In fact, your Forms 990 stated that you "did not provide any services for this fiscal year due to lack of funding." You have not provided any evidence that your organization has conducted any other activities that would be exempt under IRC 501(c)(3).

As demonstrated in Rev. Rul. 58-617, an organization's exempt status will remain in effect only so long as there are no material changes in the character of the organization, the purposes for which it was organized, or its methods of operation. In the recent court case *Community Education Foundation v. Commissioner*, the court concluded that an organization that was inactive for over seven years and did not operate exclusively for an exempt purpose did not qualify for exemption under IRC 501(c)(3). The activities of your organization have consisted of rental of facilities; selling assets and settling debts. These activities do not further an exempt purpose. Your organization has failed to meet the operational requirements to continue your exempt status under IRC 501(c)(3).

Failure to Provide Records

In accordance with the above cited provisions of the Internal Revenue Code and Treasury Regulations under sections 6001 and 6033, organizations recognized as exempt from federal income tax must meet certain reporting requirements. These requirements relate to the filing of a complete and accurate annual information return (and other required federal tax forms) and the retention of records sufficient to determine whether such entity is operated for the purposes for which it was granted tax-exempt status and to determine its liability for any unrelated business income tax.

The organization was sent eight information document requests and failed to submit a response to IDR's 2,4,5, and 7; submitted a substantially incomplete response to IDR 6; and submitted a partial response to IDR's 1, 3 and 8. The organization did not provide bank statements, cancelled checks, invoices, receipts and other documentation that was sufficient:

- to determine the sources and type of income.
- to determine the purpose of the expenses.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
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- to determine the organization's assets and liabilities.

Your organization is similar to the organization in Rev. Rul. 59-95, 1959-1 C.B. 627. You have not complied with the requests for examination and as such you have not established that you are observing the conditions required for the continuation of exempt status.

CONCLUSION:

Accordingly, status as an organization described under section 501(c)(3) should be revoked, effective July 1, 20XX, because it was not organized and operated for an exempt purpose. Further, failed to comply with IRC 6001 and 6033 and has not established that it is observing the conditions required for the continuation of exempt status. Form 1120 U.S. Corporate Income Tax Return should be filed for the fiscal tax years ending June 30, 20XX; June 30, 20XX and June 30, 20XX.